

**Iowa Area Education Agencies
School-based Health Services
Medicaid Reimbursement Rate Documentation Methodology**

The purpose of the Medicaid rate methodology is to document the actual costs of providing Medicaid-covered health services in school settings by Area Education Agencies (AEAs) and Local Education Agencies (LEAs) in Iowa. The plan will describe the procedures that will be used to identify, measure, and allocate all local costs incurred in support of Medicaid programs. This methodology has been developed to comply with Medicaid cost-based reimbursement principles, and to utilize data sources that will be available in future years so that the costs of the school-based health services may be documented on an ongoing basis. In the hope of encouraging maximum participation by school systems, Iowa, like other states, is making an effort to simplify reporting and administrative requirements associated with the claiming function by selecting a simplified method of calculating direct and indirect costs.

General Overview

In order for a service to be Medicaid reimbursable, it must be: (1) covered under the State's Medicaid Plan; (2) provided to clients who are eligible for Medicaid; and (3) provided by an institution or practitioner that has a Medicaid provider agreement with the state. AEAs and LEAs provide health procedures that are currently covered services under the Iowa Medicaid state plan. These services are provided by personnel such as nurses, physical therapists, occupational therapists, speech therapists, audiologists and psychologists. AEAs and LEAs use the fee-for-service delivery system and are reimbursed based on an individual fee schedule. The amount claimed reflects the actual cost of providing the services. The fee schedule amount is the maximum claim allowed. All procedures are billed in whole units of service. The current reimbursement methodology is based on a unit of measure defined as 15 minutes of direct service time, adjusted where appropriate according to CMS regulations.

Pursuant to Iowa Code section 256B.15, area education agencies are required to utilize federally funded health care programs to share in the cost of services provided to certain children requiring special education.

AEAs and LEAs are Medicaid-eligible providers under the Iowa Medicaid State Plan that has been approved by the Health Care Financing Administration (HCFA, now CMS). In the State of Iowa, the authority and responsibility for the administration of the Medicaid program has been delegated to the Iowa Department of Human Services, Division of Medical Services.

Data Source

Data for the calculation of indirect cost rates will be collected annually and uniformly. Iowa public LEAs and AEAs are required to follow financial accounting practices as promulgated in *Uniform Financial Accounting for Iowa LEAs and AEAs*, which is based on the federal Handbook, H2R2, and generally accepted accounting principles (GAAP) as promulgated by the governmental accounting standards board (GASB). The Iowa Certified Annual Report (CAR) is prepared by each LEA and AEA and collected by the Iowa Department of Education under the

authority of Iowa Code chapters 291 and 256. A CAR is a report to the state of detailed financial information derived from administrative and fiscal records of the LEA or AEA for the fiscal year ended June 30. The CAR must be completed, finalized and submitted to the state no later than September 15 of the same calendar year.

Each CAR is accompanied by a certification that the data in the CAR are true, correct, complete, and prepared in compliance with state and federal statutes. The certification further requires an affirmation that no unallowed costs have been included with allowed costs in numbers used to calculate indirect cost rates.

Cost data used in the calculation of costs will be taken from the general fund and management fund detail by function and object on the CAR. Function describes the activity for which a service or object is required. Object describes the type of service or commodity purchased. In accordance with OMB Circular A-87, costs for worker compensation, unemployment, severance pay, retirement incentives, and insurance have been reclassified as general administration costs, which are included in indirect costs.

Revenue data used to offset costs will be taken from the general fund and management fund detail by source on the CAR. Cost will be adjusted for reimbursements received, if any, from other LEAs or AEAs. This adjustment is necessary to accurately reflect the cost incurred by each LEA and AEA and to avoid a double accounting of costs, as the service would appear as an expenditure of funds in both the providing and the benefiting LEA or AEA.

Personnel data used in the calculation will be taken from employee full-time equivalent (FTE), salary, and contract hour data on the CAR.

Capital cost depreciation and use allowance will be taken from the fixed asset detail on the CAR.

The Iowa Department of Education will calculate annually cost rates for each LEA and AEA from expenditures delineated on the CAR. Expenditures from the second preceding year will be used to complete the cost rates for the current fiscal year. For example, expenditures from fiscal year 2003 will be used to calculate the cost rates for fiscal year 2005 claims. By means of a computer application, the data for each LEA or AEA will be brought into the appropriate calculation.

Historically expenditures by function and object in LEAs and AEAs remain very consistent over time, giving the state reasonable assurance that the rate calculated on expenditures in a base year will not exceed the rate based on actual costs in the second succeeding year.

Classification of Costs

Costs reported on the certified annual report (CAR) are classified as direct, indirect, or excluded and unallowed.

“Direct costs” are allowable costs of the LEA and AEA that benefit particular functions or programs. Direct costs can be identified specifically with a particular final cost objective. Examples of direct costs include compensation of program personnel, supplies and materials, equipment, staff development, and travel. Direct costs may also include certain contracted personnel services. Direct costs of a minor amount may be treated as indirect costs in accordance with OMB Circular A-87.

“Excluded costs” are those by which the nature of the expense, or because the nature of the costs require minimal administrative support, must be excluded from both the direct and indirect classification. Examples of excluded costs include food purchases, property-related expenditures, taxes, long-term interest, pass-through funds, and refunds of prior year revenues.

“Unallowed costs” are similar to excluded costs in that they must be excluded from both the direct and indirect classification. Examples of unallowed costs include capital expenditures, debt service, fines and penalties, and contingencies.

“Indirect costs” are costs that have been incurred for common or joint purposes and that benefit more than one function or program of the agency. These costs cannot be readily and specifically identified with a particular final cost objective without effort disproportionate to the results achieved. Indirect costs are further identified as either “restricted” or “unrestricted.” Restricted indirect costs may only be claimed for certain federal programs. Unrestricted indirect costs may be claimed for federal programs that are not specifically declared as restricted. Examples of indirect costs include data processing, purchasing, accounting, personnel, facility operation and maintenance, and other central services. Indirect costs may also include a use allowance.

Total costs, net of excluded and unallowed costs and modified by applicable credits, are classified as direct or indirect. Applicable credits and those that reflect reimbursable expenditures for services provided to other LEAs or AEAs.

Calculation of Rates

After classifying costs, the cost rates will be determined. Both direct and indirect categories of costs are included in determining rates.

In order to ensure that any individual AEA or LEA is not reimbursed more than cost, the cost of providing school-based health services will be documented. Each AEA or LEA will have separate cost-based reimbursement rate schedules.

Core Rate Documentation Formula

The core rate documentation formula is:

$$\frac{(DC + UA)}{(TUM)}$$

DC = Direct Costs

UA = Use Allowance

TUM = Total Units of Measure

Sources and Uses of the Core Rate Documentation Formula

DC - Direct Costs

The direct costs of providing school-based health services are documented in the annual financial report filed by each AEA and LEA. The CARs are based on uniform accounting data, are filed each year with the Iowa Department of Education and are audited by independent audit firms. Any non-health related or Medicaid non-reimbursable activities, such as educational activities, will be excluded from direct costs so that only allowable direct costs of health-related activities are included in the reimbursement rate calculation. Not included in direct costs are costs for purchased services and equipment/capital outlay/depreciation.

UA - Use Allowance

Medicaid reimbursement principles do not allow for expenditures related to capital purchases. Depreciation expense on capital purchases is an allowable expense for Medicaid reimbursement purposes. Iowa school districts and AEAs do not depreciate governmental assets. Many governmental providers, consistent with governmental accounting standards, do not maintain depreciation ledgers. Office of Management and Budget (OMB) Circular A-87 provides for a depreciation and use allowance in lieu of depreciation expense for qualified governmental providers. The depreciation and use allowance will be calculated at 2 percent of building and building improvement acquisition cost, excluding land costs. The use allowance for equipment will be computed at an annual rate of $6\frac{2}{3}$ percent of acquisition costs. The capital cost use allowance schedule calculates the depreciation and use allowance consistent with OMB Circular A-87 requirements. Assets will be included for the use allowance including those that would have been considered fully depreciated had depreciation been taken.

TUM - Total Units of Measure

Total units of measure represent the maximum total number of units of service that may be delivered by qualified school-based service providers, whether potentially delivered to Medicaid eligible clients or non-Medicaid eligible clients. From information reported on the CAR, TUM is derived by multiplying the total number of Full Time Equivalents (FTEs) for each service category by the number of days employed times the number of hours worked in a day to calculate the total number of hours worked by each employee category in a year. These yearly totals will then be multiplied by 4 to calculate the total maximum potential number of units of services (defined in 15-minute increments consistent with service definitions) that could be delivered in a year.

Clinicians perform activities related to reimbursable activities that are not direct client service hours. Examples of these activities include set-up and other service-related administrative activities, charting and treatment planning and family consultation services. Because these

services are not considered direct service and are not billed separately, a factor is necessary to consider this time in the rate documentation formula. This is achieved by lowering the direct service units based on studies of direct service time performed for selected representative AEAs. The direct service factors were derived from a study of AEA time performed by the Iowa State University and have been applied to similar personnel in both the AEAs and LEAs.

AEA/LEA Medicaid Rate Schedule

The Medicaid rate schedule, specific for each AEA or LEA, was developed by first calculating a cost per unit. The cost per unit was then converted into rate schedule amounts by converting the cost per unit into rates using service definitions. For example, our cost per unit is defined in 15-minute direct service time increments, consistent with service definitions for individual therapy treatments. Therefore, the rate for individual therapy treatments equates to the cost per unit for therapy services. Other therapy service rates were determined by converting the cost per unit based on service unit definitions. If a service is defined as 30 minutes, the 15-minute cost per unit was multiplied by 2 to determine the rate for a 30-minute service.

Group Service Payment Differential

The payment differential for group services was based on the relative value units (RVUs) developed by Medicare for the Resource Based Relative Value Scale (RBRVS) fee schedule. The RBRVS RVUs are based on studies of the resources necessary to deliver services of professionals, including practice expenses, education and training, overhead and other service-related costs. The rate schedule calculates group rates by multiplying the ratio of group RBRVS RVUs to individual RBRVS RVUs, by the individual service cost.

The group service payment differential factors application for services provided on or after July 1, 2002, are:

Social work services, counseling, and psychological services 0.3278.

Speech pathology, physical and occupational therapy, audiology, vision, and nursing 0.6402.

Detailed Calculation Explanations

Cost rate schedules include all costs that can be charged as the base cost (core rate) on a claim. The AEA or LEA may add to the claim the actual fee rate allowed for contracted personnel for the time devoted and identified specifically to the performance of eligible Medicaid activities, student transportation, or any other allowable purchased service incurred specifically in performance of eligible Medicaid activities, and cost of equipment and other approved capital expenditures acquired, consumed, or expended specifically for Medicaid services. The AEA or LEA may also apply its restricted indirect cost rate to the total allowable expenditures, excluding equipment purchases, to determine its indirect cost recovery. The indirect cost recovery, so calculated, may be added to the claim.

Contracted Service Rates

Due to a shortage of clinical personnel, some AEAs and LEAs employ clinicians on a contract basis. In order to encourage the delivery of services in an appropriate setting, and in order to encourage containment of contract expenditures, the Iowa Medicaid agency desires to use a set rate consistent with existing contracted service rates in effect for other, non-school-based services to reimburse school-based health services delivered by contracted clinicians as a maximum rate. The maximum rate for contracted personnel will be 65 percent of the base costs of employees in the same classification, or 65 percent of the state average core rate for employees in that classification if the district or AEA has no employees in the classification.

Student Transportation Rates

Transportation costs for students shall utilize the individual LEA's average cost per mile to and from school calculated by the Department of Education pursuant to Iowa Code chapter 285 from data submitted on the Annual Transportation Report. AEAs shall use the state average cost per mile as determined by the Department of Education.

Indirect Cost Recovery

Indirect cost recoveries are that portion of the grant funding that are used to support the indirect costs of the program. The State of Iowa has selected to assign to LEAs and AEAs the restricted indirect cost rate, thereby controlling total indirect cost recovery, for the purposes of accomplishing administrative expediency, increasing the flow of federal funds for direct project purposes, and meeting the reasonable assurance criteria described in OMB Circular A-87, Attachment E, Item 2. The maximum restricted rate calculated for a program year will be applied to expenditures on claims in that year.

$$\text{Indirect Cost Rate} \times \text{Direct Cost} = \text{Indirect Cost Recovery}$$

Indirect costs will be determined in accordance with the indirect cost plan for AEAs and LEAs negotiated by the Iowa DE with the USDE to be applied to all federal programs. The methodology implemented by the Iowa Department of Education conforms to the guidelines established by the U.S. Department of Education for the preparation of indirect cost rates. These guidelines have been provided in the publication *U.S. Department of Education Indirect Cost Determination Guidance for State and Local Government Agencies*.

Application of Cost Rates

Each AEA's or LEA's reimbursement rates will be based on cost data from the second preceding year. Actual expenditure data are available approximately six months after the AEA/LEA fiscal year ends on June 30.

After the cost rates are determined, the Iowa Department of Education will notify each LEA or AEA of the maximum core rate, student transportation cost, and indirect cost rate it may use.

Documentation and Recordkeeping

AEAs and LEAs will maintain adequate documentation of time expended by eligible staff providing services eligible for Medicaid reimbursement. These time records will be used in conjunction with the established rate schedule to complete the claim for reimbursement.